

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506~~SECRET~~

November 9, 1971

MEMORANDUM FOR

Mr. John McGinnis, Dept of Treasury
Mr. Deane Hinton, CIEP
Mr. Ronald Spiers, State
MGen John Elder, Jr., JCS
Mr. Bruce Clarke, CIA
Dr. Gardiner L. Tucker, OSD (SA)
Mr. Kenneth Dam, OMB
Mr. Herbert Stein, CEA
VAdm John M. Lee, ACDA
Mr. Lawrence S. Eagleburger, OSD (ISA)

SUBJECT: Defense Burdensharing Studies

It has been agreed within the CIEP Coordinating Group for negotiations on the New Economic Policy abroad that studies identifying options for longer-term changes in defense burden-sharing arrangements with our major allies are required and should be coordinated by the NSC. Part of the negotiating scenario developed assumes some specific short-term burden-sharing concessions along with some meaningful longer-term negotiations on future burden-sharing arrangements.

The first study should identify possible projects for early improvement of the U.S. balance of payments through actions on which we might reach early agreement with our allies. It should:

-- identify specific actions, indicating the ways and amounts by which the U.S. balance of payments would be improved and the effects on the allied defense posture;

-- summarize the history, if any, of previous considerations and negotiations on each option;

-- include cases where assumption of burden-sharing arrangements already in place for some countries might be extended to others, for example on such matters as base rentals, local taxes, and free provision of utilities.

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The Department of Defense will prepare this study under the general direction of the DPRC Working Group. It should be circulated for consideration by DPRC members by November 18 to permit inter-agency review of specific projects or approaches which might be raised in conjunction with the December NATO ministerial and in a similar timeframe with Japan.

The second study should be directed to longer term burden-sharing. It should cover changes in current arrangements as well as completely new arrangements for improving the U.S. balance of payments. Among the types of arrangements to be considered are multilateral assumption of U.S. local costs, direct budgetary support, financial measures and multilateral assumption of the U.S. share in common programs (e.g. EDIP).

These studies should be based on a detailed analysis of the balance of payment costs of U.S. forces, including spending of servicemen and dependents and should include projections for five years of the effect of new or modified burden-sharing arrangements.

The Department of Defense will prepare this study under the general direction of the DPRC Working Group. It should be circulated for consideration by DPRC members by November 23 to permit interagency review of principles to be raised in conjunction with the December NATO ministerial and in a similar timeframe with Japan.

For both studies it should be assumed that the offset agreement with Germany is concluded, that Japan agrees to double its defense purchases in the U.S., and that NATO force improvement in NSDM 133 are made.

The studies should be limited to NATO members and Japan although actions of these countries in reducing the U.S. balance of payments burden in other countries should be included.

Actions primarily involving reduction in U.S. forces in Europe should not be included in these studies as they will be considered in connection with MBFR.

K. Wayne Smith

K. Wayne Smith
Director, Program Analysis

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MEMORANDUM

NATIONAL SECURITY COUNCIL

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November 4, 1971

MEMORANDUM FOR MR. KISSINGER

FROM: K. Wayne Smith *KWS*

SUBJECT: Defense Burdensharing and the
New Economic Policy

Improvement of our balance of payments by revising defense burdensharing arrangements with our allies is a theme of the New Economic Policy (NEP). During the past month Peterson's Council for International Economic Policy has been trying to organize studies in this field. Treasury and State have been the main agencies involved. The inter-relationships with such major security issues as NATO force improvements and MBFR have not been sufficiently recognized.

Because of our insistence that security considerations and DOD must play a prominent role in the defense burdensharing NEP work, Peterson suggested the NSC take the lead on the relevant studies. This will also permit us to segregate NEP issues from NATO force improvements and MBFR.

The NEP studies will consist of identifying some relatively small projects which would be implemented immediately to show some progress in phase one of the NEP and an effort to develop principles on which we might reach early agreement with allies which would provide a framework for additional medium-term improvement in our balance of payments. In both cases issues such as reduction of our forces in Europe and NATO force improvements would be held outside the scope of these NEP studies as they will be considered in other ways.

I believe the DPRC is the best group to handle this issue and give an adequate voice to Defense.

Peterson and Connally believe we should take an initiative on defense burdensharing at the December NATO Ministerial. The deadlines for circulation of the studies are set to permit a December initiative, but we may want to consider later whether our position is sufficiently clear and whether sufficient groundwork has been laid for a major initiative this December. Keeping the issue in the DPRC framework (with CIEP

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and Treasury participation) should allow you to make the judgment on the nature of a December initiative, if any, and its relationship to NSDM 133.

Sonnenfeldt and Hormats concur.

RECOMMENDATION

That you authorize me to sign the memo at Tab A to the DPRC Working Group.

HK

Approve

Disapprove

Alternatively, that you sign the memo at Tab B to the DPRC Principals.

Approve

Disapprove

See me

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